Research ROI Analysis – A Powerful Tool for Marketers

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Abstract

Research Return on Investment (ROI) analysis provides market researchers with two powerful tools that appeal to their clients. First, research ROI analysis computes financial measures of the payoff of proposed research projects and so is a valuable decision tool that that is understood by CFO's, CEO's and other top executives. Second, the process of conducting and reporting the results of research ROI analysis can be a valuable marketing tool for the marketing research function because it requires important strategic conversations with clients. These discussions demonstrate market researchers' knowledge of the business priorities, show that marketing researchers whether located in a business line or in a centralized market research function are team players with goals that are aligned with their clients', and increase the likelihood that the clients will accept, act on and value the research.

Overview of ROI Analysis

Return on Investment (ROI) analysis can be a powerful tool for market researchers in two basic kinds of situations. First, it can be used as a decision tool to help researchers and their clients make the most of their research spending. ROI analysis can help determine appropriate research budgets for projects, prioritize research spending across various projects, and focus clients on their role in getting the most value out of the research investment. Second, ROI analysis can also be used as a marketing tool to enhance relationships with clients and secure needed resources in the future. When market researchers discuss financial returns on research with their clients and prepare reports that demonstrate what they have helped their organizations earn or save, they show that they understand their clients' goals and can be valued partners in their clients' success. While it is helpful to point out the theoretical distinctions between these two applications of ROI analysis, in practice the distinction between the two uses is not always clear cut. In fact, researchers often find that, by using ROI analysis to prioritize research spending (and perhaps even eliminate less valuable projects), they are actually enhancing their relationships with their clients.

This chapter discusses how ROI analysis can be valuable as a decision tool and then as a marketing and relationship tool for market researchers whether located in a business line or in a centralized marketing research function. Formulas for measuring ROI (as well as some alternative methods of assessing value) are presented and then a number of examples that illustrate the various situations in which ROI analysis can be used are discussed. The chapter concludes with a description of how some MR groups have incorporated their ROI analysis into annual reports and budget requests.

ROI Analysis as a Decision Tool

Most market research (MR) departments have limited budgets and resources and need to find ways to reconcile the potential value of projects with the amount of monies and people available. ROI analysis computes financial measures of the payoff of MR projects and so is a valuable decision tool that that is understood by CFO's, CEO's and other top executives. ROI analysis can be used as a decision tool to help create an appropriate budget for a research project, prioritize or rationalize spending on research projects, make the research design more actionable and focus clients on their role in getting the most out of the research investment.

To illustrate just one of these decision situations, consider the case of the Head of a corporate market research department. He was asked by a marketing executive to initiate a customer satisfaction measurement and tracking project that would identify ways to build repeat sales and recommendations from current customers in order to grow revenues. At the same time, a different marketing executive asked the MR Head to conduct a massive customer segmentation project in order to identify the most valuable customer segments and to develop new products/services and marketing/sales approaches that would increase sales to those customer segments. The MR Head knew that he had a limited research budget (including limited staff) and that conducting both of these projects on a grand scale would mean that he would have to secure additional funding or else drop other market research projects that had already been approved.

Both projects might be very important strategically to his firm. Both had high-level executive sponsors or champions within his firm. Both might have strong impact on the revenues and competitive success of his firm. And, both might be very expensive in terms of money to conduct the research and staff time.

How did the MR Head handle this situation? He analyzed the investment needed for each of these research projects and comparing that to the anticipated pay offs or financial returns of the projects. This use of ROI analysis as a decision tool provided him with a rational, objective and defensible way of making budgeting decisions by prioritizing projects and spending. After using ROI analysis, the MR Head recommended accepting both the customer satisfaction and segmentation projects because they each had substantial returns even though the budgets were large. At the same time, he recommended eliminating a previously-approved project with low returns in order to help pay for the satisfaction and segmentation projects. In this MR Head's case, ROI analysis provided a methodology for responding to research requests in a way that the executives could understand. It avoided the appearance of favoritism or off-the-cuff decision-making when determining how to spend or how to allocate the MR department's limited time and money. And, it allowed him to decrease part of his budget and work load in order to add the new satisfaction and segmentation projects.

ROI Analysis as a Marketing Tool to Build Relationships and Secure Resources

Market researchers can use ROI analysis as a marketing tool to demonstrate their value to their organizations and clients and to make the case for budget and resource requests. While most MR departments are perceived as adding value, those that aren't are the ones most likely to be asked to justify their budgets with an ROI analysis. As one researcher put it, "I developed my ROI measures as a defensive tactic. The marketing research function was under attack in my firm and I needed something concrete to convince our clients (and ourselves) that we were worth all and more of what we were spending on MR." An internal client provided a parallel point of view. "If I'm happy with my research group, I don't need to have them take their time and budget to measure ROI or prove to me how valuable they are. However, if I'm unhappy with them and don't think I'm getting good value for my money and time, then you bet I want to have some objective way of evaluating whether I'm getting value for what I'm paying for."

A woman who was in charge of the market research function in her firm knew that the economy and slowing demand for her firm's products meant that she might face a decline in her budget and staff. The end of the fiscal year was approaching and she needed to put together her annual budget plan for the coming year. She knew that her MR group was highly regarded by senior management, that the number of research projects had been increasing from year to year, and that her group consistently received many compliments from the business managers. However, staff size had not grown, and people were working so flat-out that they had no time for training or on-going skill development. They were routinely working overtime in order to deliver projects, and were in danger of burning out. In fact, several team members had said they would have to reduce their overtime or look for other jobs with better work/life balance. She was squeezed from both sides, with staff pushing for more resources and corporate looking for ways to cut back.

She was competing with other groups within the organization that were certain to provide evidence of their need for more resources, so she needed to provide an objective argument that allowed top management to assess the value of MR compared to the value provided by the other groups within the firm.

How did she handle this challenge? She created an annual report that had several sections. First, she determined the value that the market research group had produced in the past year for the organization and used this as a benchmark to estimate the future value that MR could produce in the coming year with proper funding. Second, she estimated the potential value the research she hoped to conduct in the coming year, This was based on a series of conversations she held with top clients about their research needs and how research could help them accomplish their goals for the coming year. And, finally, she listed what monies and staff she needed to implement the MR plan for the next year based on demand by business managers. This MR annual report clearly demonstrated to top executives that they either needed to cut back on MR that had been so valuable in the past or else expand MR resources in terms of money and staff. She won some, although not all, of what she requested. However, if she had not been able to demonstrate the value provided by MR, she probably would have had her budget and staff reduced.

ROI analysis was a powerful marketing tool in this case, just as it is a powerful decision tool for weighing research projects and spending. When using ROI analysis as a marketing tool, the researcher typically looks backward at the ROI MR has provided in the past year for the organization as well as forward to the expected returns on the research that is being proposed for the coming year. The last section of this chapter describes in detail how to calculate anticipated ROI for future projects as well as how to estimate the actual ROI on projects already completed.

Assessing the Value of Investment in Research

There are three methods for assessing the value of investment in market research. The simplest is called **Negotiated Value**. As its name implies, the market researcher and client negotiate the value they attribute to the research. The second method is **Traditional ROI**, which uses a standard formula for computing returns as a percentage of investments. The third and most sophisticated method is **Research ROI**. This adds the concepts of confidence and likelihood of acting to the Traditional ROI measure, which makes it especially appropriate for use by researchers.

Negotiated Value Method

The "Negotiated Value" method is the easiest tool for evaluating the financial impact of MR projects. It begins with a negotiation conversation with the client that focuses on the potential value of decisions to be guided by the research. The conversations go beyond project objectives because the researcher and client agree on a monetary value of the research. There is no fixed way to estimate the value, which makes it less onerous than the usual ROI discussions, but Negotiated Value is also less standardized and more difficult to use for comparison purposes than ROI analysis.. The researcher and the client know that the value estimate is just that: an estimate. However, the discussion helps them both determine how much to spend on the research and may also help guide the research objectives and design. The following are just some examples of how Negotiated Value analysis might be used.

- For research on new products or new markets, the Negotiated Value estimate might focus on the expected value of each promising new idea identified and developed.
- For product, line extension or enhancement research, the estimate might be based on the incremental revenue expected from improving the products or services.
- For advertising research, the estimate might be based on the advertising budget at risk.

One researcher explained her use of Negotiated Value this way. "I meet with my clients before the research projects begin and ask how they will use the research and what value they hope to gain by conducting the research. Sometimes they will say that it will help them spend their marketing budget more wisely, so we estimate the value as a portion of their marketing budget. Other times they may say that they hope to better understand the needs of a promising new market segment and that, if successful, this could have huge payoff for the entire firm. In that case, we might decide to attach a higher dollar value to the research."

In addition, some researchers "bank" the Negotiated Value of the projects they conduct in a year and then add that value together to estimate the overall annual value provided by the market research group. "Suppose I've conducted 20 major research projects this year for which my clients and I have estimated the Negotiated Value. Then, I prepare an annual report for the top executives summarizing the total value. It's a great way to demonstrate in financial terms what the firm has gained from its investment in the market research group and in our projects."

Traditional ROI

Historically, Traditional ROI was used primarily as a way to assess the expected payoff of potential major investments, such as investments in new factories. Its formula reflects the importance of both the expected money to be gained and the money to be invested. Traditional ROI is defined as the ratio of money gained or lost on an investment relative to the amount of money invested.

$$Traditional\ ROI = \frac{\$Return\left[Final\ \$Value\ minus\ Initial\ \$Value\right]}{\$Investment\left[Initial\ \$Value\right]}$$

The Final Value term is the amount the organization expects to (or actually does) earn from the investment. The Initial Value term is the investment itself. And the numerator or the $ Return is the difference between what is finally earned and what is initially invested.

Some market researchers have used Traditional ROI as a tool to determine how much to spend on research projects. As one researcher put it, "Marketing was under pressure to estimate its ROI, so I decided to use the same tool when a marketing client asked me to conduct research on a potential new product. We talked about what the "final value" of the new project might be – that is, what we could hope for in sales from the new product if it was successful. Of course we agreed that it was simply a 'guesstimate', but we came up with a total of $1 million over a five-year period. This helped us decide that we should invest a substantial sum in conducting the research because the potential payoff was so big. We spent $100,000 on the research, so our estimated [Traditional] ROI was

$$Gross\ ROI = \frac{\$1,000,000 - \$100,000}{\$100,000} = \frac{\$900,000}{\$100,000} = 900\%$$

(There are many articles and book on how to compute Traditional ROI. See the Further Reading section at the end of this chapter.)

The advantage of using Traditional ROI over using Negotiated Value is that Traditional ROI is more familiar and in much broader use among executives. This permits executives to compare the ROI estimates of market research with the ROI of other investments (such as investments in new IT systems or HR training). Using Traditional ROI analysis also demonstrates that market researchers speak the same language and share financial goals with the clients – especially those at the top of the organization.

The main disadvantage of using Traditional ROI is that it does not account for the unique but limited contributions of market research and may overstate the value of the research, which can cause executives to reject researchers' calculations. This has led some market researchers to use the Research ROI method.

Research ROI

Research ROI adds the concepts of confidence and actionability to the Traditional ROI because these are important benefits of conducting market research. The more that market research can increase the decision maker's confidence in making the correct decision, the greater the value of the research. Similarly, the more the market research increases the likelihood that executives will take action, the greater its value. Thus, some market researchers use the Research ROI formula below because it includes an assumption about increased confidence (or reduced risk) and increased likelihood of taking action when research is conducted. The Research ROI formula is as follows.

$$\frac{\$Return\left[Final\ \$Value - Initial\ \$Value\right] x\ Increased\ Confidence\ x\ Increased\ Likelihood\ of\ \ Acting}{\$Investment\left[Initial\ \$Value\right]}$$

Adding the Concept of Confidence

Market researchers know that many executives are willing to make decisions (even large and risky decisions) without the benefit of any market research, if the executives believe they already know the correct decision to make. Many researchers have been asked at the last minute to conduct market research that would merely "bless" a decision that an executive has already decided to make. If a firm regularly makes decisions without research, then research may not be able to increase the confidence in a decision, and the firm should not spend much money conducting market research. However, if the firm cannot imagine making decisions without research, then the market research has considerable value because it increases the confidence of making the best decision.

Adding the Concept of Actionability

Some research does not result in any action: some decision makers choose for reasons of their own to take no action even when the research gives clear direction. Sometimes firms conduct research to increase their knowledge or as an input to developing a strategy without necessarily leading to action (as is often the case with exploratory research). When the research does not lead to action, many people believe this means that the research is less valuable than research that does leads to action. Adding estimates of confidence and actionability to the ROI calculation is not easy. As one MR Director said, "I'm not sure if it's a good idea or not to try to measure return on research. Just like estimating the return on IT investments, there are so many assumptions necessary that you can never be sure your estimate will be close. For some kinds of exploratory research, like researching new products or markets, you don't know until you're done whether or not it will produce anything of financial value, and you certainly can't predict whether the executives will take action or not." Because these discussions are difficult, some MR groups prefer to avoid the Research ROI method. And, those who do use it admit that they compute Research ROI only for larger projects.

In one case, the head of MR – a woman with many years of experience at the firm – was asked to research a new product concept and determine the product features and target market segments that would yield the greatest profits. This was a very important project for the firm, whose strategy called for having a steady flow of successful new products. So, the researcher talked with executives in marketing, manufacturing, finance and sales to estimate the most likely sales volume over the first five years of the product's life. Using a 10% cost of capital at the advice of the CFO (because that was the rate used for other investments), she determined the net present value of five years of revenues from the new product was $6.5 million. She then talked to the marketing and senior managers to determine how confident they were that they could make the right choice of product features and target markets without research. The clients said they were only 30% confident without research but would be at least 70% confident after the research was completed – an increase of 40%. Finally, she asked them how likely they were to introduce a new product – that is to take action – with and without the research. They determined that their likelihood of action would increase from 25% without research to 75% with research for an increase in actionability of 50%. Then, estimating that the new product market research would cost $500,000, she calculated the Research ROI of the project as shown below and determined that the research would be worthwhile for her firm.

$$\frac{(\$6,500,000 - \$500,000)\, x\, 40\%\, x\, 50\%}{\$500,000} = \frac{\$6,000,000\, x\, .2}{\$500,000} = \frac{\$1,200,000}{\$500,000} = 240\%$$

Which Measure of Value Is Best for You?

When calculating Traditional or Research ROI with their many assumptions and measures, it is important to be very clear with clients about the assumptions being made. For example, when market researchers talk to clients about their estimated likelihood of taking action with and without the research, it can start a valuable dialog that emphasizes the importance of the client in the research process. On the other hand, it may annoy some clients.

Many researchers talk about how difficult it is to get estimates from their clients of the potential revenue and cost implications of the market research. One market researcher said, "What do I know? What do my clients know about manufacturing costs or the cost of capital to use in Net Present Value? I don't know what financial or ROI hurdles the firm has set or what other opportunities they face. My clients and I are, for the most part, too junior to enter the circles where these conversations take place." Others researchers talk about how many assumptions go into the estimates. "We could make estimates, but it feels like pulling rabbits out of a hat. We could be right or wrong, and we wouldn't know the difference." Still others tell us that their clients lack the patience to sit down with them and make the estimates. "To a lot of these clients, I'm just an order-taker. They tell me what research they want, and they don't want a lot of guff from me about whether they will use the research and how certain they are about the results. I try to talk to them like a partner, but not all clients want that." These are all valid comments and, therefore, most market researchers use the Research ROI tool only for major projects. The choice of using **Negotiated Value**, **Traditional ROI** or **Research ROI** depends on the firm, the situation and the client. The chart below compares some of the pros and cons of each measure as an analysis tool.

PROS AND CONS OF METHODS FOR ASSESSING THE VALUE OF INVESTMENT IN MARKET RESEARCH

Negotiated Value Method

Measures Used	Pros	Cons
Negotiated estimates of expected revenues or value of issues to be researched	Easiest method Is a way of assigning $ value to market research Can tie research budget to expected value it provides Dialog shows MR cares about client values and needs	Lack of consistent measures or methods of determining value means it can't be used to compare the value of projects to each other

Traditional ROI Method

Measures Used	Pros	Cons
Estimates of return (final $ value minus initial $ investment) **A ratio of return as a % of investment**	Same as Negotiated Value ROI can be compared among research projects and between research and other spending. Formula and concept familiar to many executives	Not easy to estimate expected returns with certainty – especially for inexperienced clients or researchers Assumes all returns are attributable to MR, which they are not

Research ROI Method

Measures Used	Pros	Cons

Same as Traditional ROI plus: **Increase in confidence** **Increase in actionability**	Same as Traditional ROI Provides a better estimate of the value of MR, which is not the sole cause of revenues but does increase confidence and actionability Becomes easier with repeated usage	Requires the most assumptions and discussion Discussions about client likelihood of action and confidence in decisions can be uncomfortable for clients and MR

Since the Research ROI is the most complete and challenging measure, the rest of this chapter focuses on Research ROI implementation with examples of its many uses. Anyone who knows how to compute and use the Research ROI analysis should be able to scale back to the Traditional ROI or Negotiated Value analyses.

How to Use Research ROI as a Decision Tool

There are many ways to use Research ROI as a decision tool. This section presents four common ways.

1. Create an appropriate budget for a research project.
2. Make the research design more actionable.
3. Compare alternative research options and prioritize them.
4. Focus clients on their role in getting the most value out of the research investment.

1. Create an Appropriate Budget for a Research Project

An ROI discussion can help the researcher and the client agree on how much to invest in a new piece of research. For example, if the dollar value of a decision is fairly small and/or the expected decrease in uncertainty is fairly low, then it may not be worthwhile to spend very much money conducting market research to guide that decision. However, a decision with large financial or strategic implications for the client or where there exists a great deal of uncertainty about the best course of action may make a substantial investment in market research cost effective.

For example, a marketing manager wanted to conduct research among potential customers to determine which of four promotional offers would be most effective. All the offers cost about the same amount to implement, so the challenge was to see which one was most preferred by customers with the highest reported purchase intent and thus would increase revenues the most. In previous years, similar promotions had resulted in revenue increases of about $2 million. Given that there were four choices, the researcher and the client agreed that the odds of randomly picking the best one were 25%, which would increase to 100% once the research was complete (an increase in confidence of 75%). And, the marketer agreed that he was certain to take action once the best promotion was determined. So, the researcher and marketer computed how much to spend using the Research ROI calculation below. Note that they assumed that the Research ROI had to be at least 100% or breakeven.

$$Research\,ROI = \frac{(\$2,000,000 - Cost\,of\,research)\,x\,75\%\,x\,100\%}{Cost\,of\,research} = \frac{\$1,500,000 - .75\,x\,Cost\,of\,research}{Cost\,of\,research}$$

Research ROI x Cost of research = $1,500,000 - .75 x Cost of research
If Research ROI = 1.00: 1.75 x Cost of research = $150,000
Implies: Cost of research = $857,143 at breakeven ROI of 100%

They concluded that a breakeven budget (where the Research ROI was exactly 100%) was about $860,000. As long as they spent less than that and the costs of implementing the results were not a factor, the research would pay for itself at that level. Since even a first rate project, with a large national sample of customers was priced at only $100,000, they agreed that this budget was very worthwhile.

2. Make the Research Design More Actionable by Comparing Options

Anil Menin and James Wilcox in their article, "*USER: A Scale to Measure Use of Market Research*", found that there are many reasons why market research is conducted. These include positive reasons (to guide decisions, to increase knowledge, or to build awareness of the reasons why decisions must be made) but also some cynical reasons (to play internal politics, to delay or confuse decisions, or to bless decisions that have already been made).

A major challenge for all researchers is to make their research actionable, which means to design the research so that it gives such clear guidance on the best course of action that the client will find it almost impossible not to take action. However, when research is done for cynical reasons (for example, when the client has already determined what action he or she wants to take and is using the research to bless a desired action or prevent an undesired action), then it is easy to determine that the projected Research ROI is zero. Why?

If the action being researched is desired and the client is already certain it is correct, then the increase in confidence is zero, which means the ROI is zero. Similarly, if the action being researched is so unpopular with the client that she or he has already determined not to implement it no matter what the research may show, then the chances of acting on the research are zero, which means the ROI is zero. Thus no monies or effort should be spent on conducting research.

Suppose that you are facing this situation, what can you do? One approach is to ask the client to let you design the research to test additional alternative action options. One researcher faced a situation where her CEO wanted to implement a new $10 million advertising campaign that was designed by his spouse and children. The CEO asked the researcher to conduct research on this campaign design but clearly was doing this only to confirm the decision he wanted to make. However, the researcher's gut reaction and the reaction of several other colleagues was that this campaign would actually damage rather than help the firm. They could also see that testing just this one option would have a Research ROI of zero. No matter what was spent on the research or what it said, the increase in certainty and actionability would be zero. The researcher saw that she could either decide to spend almost nothing on the research because she assumed the research would not be acted upon even if its conclusion recommended against the already made decision. Or, she could offer to study other creative options as well as the wife's creative campaign since she wanted to see the $10 million advertising budget put to the best use. After some diplomatic pleading, she got the CEO to agree to let her add four more creative options that appealed to the CEO's wife and children. Then she showed him the Research ROI based on the following assumptions.

- The five creative approaches would cost the same amount, so the $10 million campaign cost was the final value estimate.
- Although the CEO was certain his campaign was the best of the five, no one knew for sure, so the confidence of randomly picking the best one was only 20%.
- After the research was complete, if the research showed another campaign was best, the CEO would be only 25% confident that the research was correct, so the increase in confidence would actually be only 5%.
- The researcher believed the odds that the CEO would actually implement one of the other campaigns (if it proved to be best) was 50% because he had to advertise in some way.
- And, she assumed that she could conduct the copy testing for $125,000.

Then the Research ROI =

$$\frac{(\$10,000,000 - \$125,000)\,x\,5\%\,x\,50\%}{\$125,000} = \frac{\$9,875,000\,x\,.025}{\$125,000} = 198\%$$

Thus there was substantial estimated return to conducting research that compared the CEO's wife's campaign with others, even if he was far from certain to implement another campaign. If the CEO's favorite campaign won, at least others in the firm would be convinced, and the CEO would be grateful to the researcher. If another option proved to be superior and the research convinced the CEO to use that option, then the researcher would have helped the firm avoid wasting the whole $10 million.

As this example shows, the Research ROI is always enhanced by testing more than one option – whether it be new products, new advertising, new promotions or new pricing schemes.

3. Compare and Prioritize Research Projects

Research ROI analysis can be used to compare and prioritize proposed new research projects. It is also a good way to assess the ROI of on-going research projects on a periodic basis. Many on-going projects (such as the purchase of syndicated research, on-going satisfaction research, and tracking studies of all types) deserve an ROI analysis now and then. This allows market researchers to prioritize and potentially eliminate less valuable projects to make room for new projects that should have greater value to the organization. An ideal time to do this is when the research group is asked to do more than it can afford, when staff members are feeling overwhelmed by the volume of work or during the annual budget process.

4. Focus Clients on Their Role in Making Research Valuable

The clients play a key role in determining the Research ROI because they are the ones who have to take action based on the research. No matter how well-designed the research, if the clients are unlikely to act, then they are better off not conducting that market research. The start of a market research project, when the clients are enthusiastic about the need for the research, is the ideal time for the researcher to focus the clients on their role in making research valuable and taking action.

The following is an example of focusing clients on getting the most out of the market research. A MR Director's CMO asked for research to determine whether or not to enter a brand new market with a brand new marketing approach. If the decision was yes, the CMO estimated it will take $20 million in production and marketing costs to produce a new revenue stream of $50 million in the first year. The CMO suggested using only the first year's net income of $30 million ($50 minus $20) as the expected net value for the Research ROI calculation because of the uncertainty of how quickly another competitor might jump into the market. (Note that sophisticated clients might use Net Present Value of revenue streams even after competitive reaction to estimate Research ROI, but using a one year time horizon is always the most conservative approach to estimating Research ROI.)

Although the CMO was very excited by this possible new market and hoped it would be the key to the firm's future growth, he knew that this was a risky undertaking. The CMO estimated he was only 10% confident that he would make the right decision without research. With the research (which he assumed would be good), he estimated he would be 90% confident, which is an increase of 80%. This firm was led by a very new group of C-suite executives (including the CMO) who had worked together for only a short period of time and had no clear sense of teamwork yet. Some of them were very risk averse and were not eager to enter a new market until they had more experience. In the process of discussing the research proposal with the C-suite executives the MR Director brought up the issue of the executives' role in taking action based on the research results. The MR Director offered some hypothetical scenarios to them and asked them how they would respond.

- Who would take the lead on taking action?
- How would they make decisions and choices of the correct action as a team?
- How would they decide what financial and human resources to use and how much to spend?
- Who would be accountable for the results after action was taken?

They agreed that they would work together as a team to decide which actions to take as a result of the market research. However, they estimated that, even if the research gave clear direction, they might be unable or unwilling to act. So, they agreed that the estimated likelihood of acting on the research was 30%.

The cost of the research was expected to be $1 million. So the MR Director and CMO calculated the Research ROI in order to decide whether the research was still worthwhile given the low likelihood of acting on the research. As the calculation below shows, the Research ROI was estimated to be 696% by the end of the first year, and they believed that the return would increase in future years.

$$Research\,ROI = \frac{(\$30,000,000 - \$1,000,000)\,x\,80\%\,x\,30\%}{\$1,000,000} = \frac{\$6,960,000}{\$1,000,000} = 696\%$$

While the C-suite executives did not commit to action, they realized that any inaction would be due to their indecision and not to a deficiency in the research. And, after the research was completed, the MR Director had the opportunity to meet with the executives to discuss why an actual decision was or was not made. This was an excellent way for the MR Director to stay involved with his clients and in understanding the clients' changing needs and decision processes.

In this case, the MR Director used the Research ROI analysis as a decision tool before the research. Then, by checking back with the CMO and C-suite executives afterward to see what actions were or were not taken as a result, he also used the ROI analysis as a marketing and relationship tool.

A Word of Warning

There are going to be times when market researchers will be wise to provide the clients with what the clients want even if the expected Research ROI is poor or even negative.

- If the CEO asks for a piece of research because her or his boss (perhaps the Board) demands it, all the market researcher can do is try to design the research to maximize the ROI while still meeting the CEO's needs.
- Research that links directly to company strategy or business goals might be given a higher value than research that has only indirect links. The purpose of the ROI discussion is not just to make the best possible research spending and design decisions.
- If the clients resist participating in the ROI discussion, researchers probably will have to accept the situation and hope for a future opportunity for discussion. Although some clients prefer researchers to be order takers, most researchers' primary goal is always to show clients that they want to be and are partners in their clients' success.

How to Use ROI Analysis as a Marketing Tool

The annual market research budget process is an ideal time for market researchers to meet with internal clients to ask for their feedback on the performance of the market research group in the past year, to understand the clients' business challenges and needs for the coming year, and to plan the appropriate research to support their expected business decisions and challenges. This interactive process can be enhanced with Research ROI calculations for the planned research which will result in priorities for the resources available for research and will also enhance the relationship process between the market researcher and the client.

Some of the ways to use Research ROI analysis for marketing and relationship-building purposes are:
1. A year-end review of the value (financial and other) provided by the MR group
2. An annual listing of the highest priority research needs and their estimated ROIs.
3. Support for the MR group's resource requests.

In all three of these uses, the discussions with the client executives and the Research ROI analyses act as both decision tools and marketing tools.

1. A Year-End Review of the Value Provided by the MR Group

Increasingly, MR Groups are preparing annual reports for top executives and clients in their firms that demonstrate the value they have provided in the past year. The annual report not only demonstrates the actual financial returns from the past year's investment in market research, it also is a powerful marketing and relationship-building tool to show senior leaders and clients how effective the MR group has been and can be as a partner in their success.

These annual reports usually take several approaches to measuring the value provided by the MR group, and each of these approaches can be key sections in the annual report. Note that these are often similar to the Balanced Scorecard elements developed by Kaplan and Norton (1996) and market researchers working on their annual reports are strongly encouraged to read their publications. Typical sections in the annual report might include the following:

A. The financial value or Research ROI of market research during the last year
B. Knowledge management or the contributions of research to the wisdom of the organization during the last year
C. Client satisfaction or the effectiveness of the MR group during the last year
D. Process or operating measures of the efficiency and magnitude of the research

A. Financial Value or Research ROI of Market Research

Research ROI analysis can be a powerful tool for demonstrating the value provided by the market research function in the past, just as it is for weighing alternative research projects. Only, in the case of the annual report or balanced scorecard measure, market researchers typically look backward at the ROI to show top decision makers what market research has actually contributed financially.
Estimating the annual Research ROI of the market research investment begins by cataloging the research projects undertaken in the past year and estimating the actual Research ROI that each project or activity produced. If the Research ROI of a project was estimated before the project began, then the market researcher can go back to the decision maker or client after the research is completed and when enough time has passed for actions based on the research to have been taken. Then, by asking the client what actions were actually taken and how confident the clients felt in their actions, the researcher can re-compute the Research ROI.

To illustrate, let's return to the example of the new C-suite executive management team that had research conducted to assess the value of a new product in a new market. The estimated first year's net income from the new product was $30 million, the estimated increase in confidence was 80%, the estimated likelihood of taking action was 30%, and the cost of the research was $1 million. The MR Director went back to the C-suite management team six months after the research was completed to assess the actual Research ROI. The CMO told the MR Director that the executives had committed to the new product and would be implementing it soon, although the research showed that the financial value would only be $15 million for the remainder of this year. The CMO said that he believed that the research had increased the executives' confidence that they were making the right decision by 80% - as they had estimated before the project was started. The CMO also said that the executives gave the MR Director full credit for helping them commit to action by bringing up the actionability question in advance. So, MR Director re-computed the Actual Research ROI as

$$\frac{(\$15,000,000 - \$1,000,000)\,x\,80\%\,x\,100\%}{\$1,000,000} = \frac{\$14,000,000\,x\,80\%}{\$1,000,000} = 1,120\%$$

This was a very high Research ROI – one that was probably much higher than most projects'. Research projects can also take a loss or have no credited value. For instance, if a business took action based on research that resulted in a loss, then the MR group would share in this loss and an amount for the loss would be deducted from the total sum that market research contributed over a year.
Finally, the annual report combines the Actual Research ROI of all the projects the MR group has completed in the year for which an ROI was calculated and computes an overall average Research ROI for the year. In practice, most small value projects will not have Research ROI calculations because it is not worth the effort to the client or MR. And, even some major projects may lack a Research ROI calculation because the clients are not very interested in spending the time to estimate the necessary figures. For the projects that have been completed without measuring Research ROI (or even Traditional ROI or negotiated value with clients), the MR group's annual report can demonstrate value presented in the other sections of the report.

It is useful for the MR group and its senior clients to set an annual Research ROI or financial goal for the MR group at the beginning of each year. This permits the MR group head and the senior executives of the organization to evaluate MR success, and bonuses for the MR group can be determined if Actual Research ROI meets or exceeds goal expectations. These Research ROI goals can be set separately for each client, the business line or for the organization as a whole.

B. Knowledge Management

In this section of the MR group's annual report, the new insights or knowledge that have been provided by this year's research are listed. This is primarily descriptive information about what has have learned and how it has been communicated. Many large MR groups put some of this information on the intranet so that qualified clients can see the topics that have been researched and can request a conversation or data about what was learned that could apply in their business. The knowledge management section of the report can include surprising things that were learned from the research, how the research budget was aligned with the overall organization's strategic goals, and other factors that show how MR has contributed to the successful management of the organization.

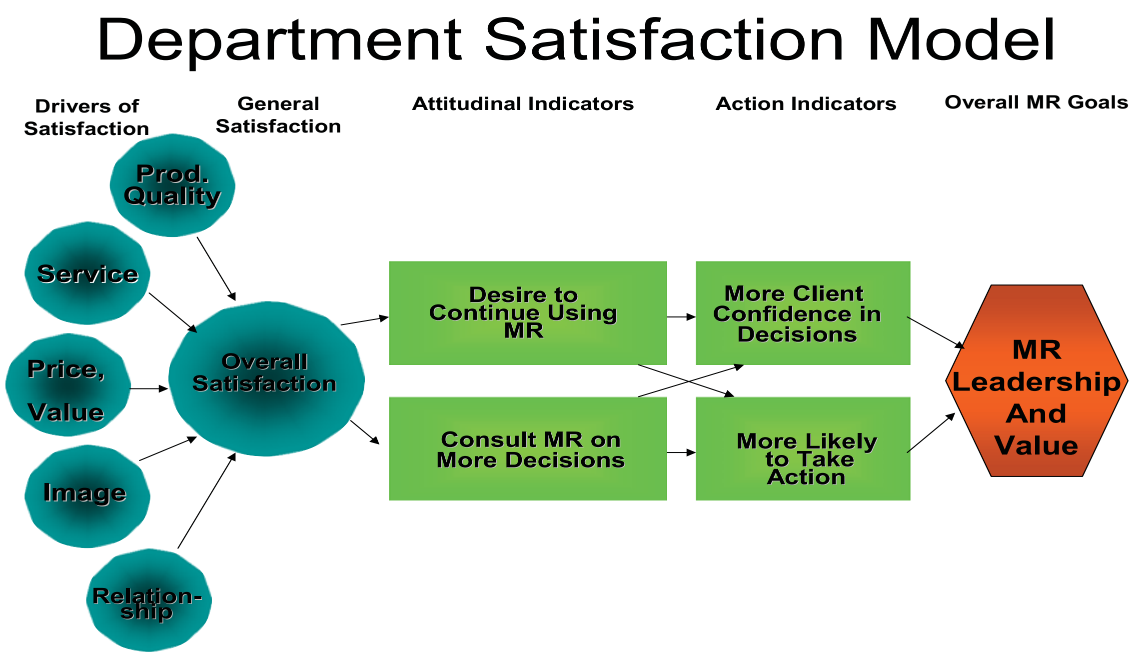
C. Client Satisfaction or the Usefulness of the Market Research Group

This section of the annual report focuses on client perceptions of the value of the MR group. This could include measures of the usefulness of the research as rated by clients, client satisfaction with the way the research was conducted, and client ratings of the relationship they have with the MR group. These measures are perceptual rather than financial, but for many projects where no Research ROI analyses are possible, they are often the most important available measures for the annual report.

Anil Menin and James Wilcox suggest the following measures of research "usefulness", which some MR groups use to assess the usefulness of their research work:

- Degree to which results of the study were influential in the final decision
- Degree to which something new was learned from results or from doing the research
- Degree to which the research increased knowledge or lead to action instead of being a "show"
- Comparative number of people using the research – the more who find it useful, the better
- Percent of study that need not have been done or was beside the point.

When measuring client satisfaction with the MR group, the model proposed by Rust, Zeithaml and Lemon as shown below could be a useful tool.



D. Operations or Process

The operating or process measures of the MR group are often fairly simple measures of the research work completed and the efficiency of the work. For instance, typical measures include the number and types of research projects or analyses, the cost of the projects, the ability of the group to complete projects on time and within budget, comparisons or benchmarks with other comparable market research groups, and the costs of work done in house versus by suppliers, and so on.

Not every MR group has the resources or ability to prepare an effective annual report. However, when a high-quality annual report is shared in person with top management or key clients as part of an annual review, it becomes a powerful tool for building strong relationships and demonstrating the market research is a committed business partner with the same professionalism as they would expect from themselves.

2. An Annual Listing of the Highest Priority Research Needs and Their Research ROIs

A best practice used by some leading MR heads is to have annual review discussions with their top clients. This ideally happens before the annual budgeting and strategic planning cycle begins so that the MR group's plans can be aligned with the needs of its clients. In these discussions, the market researchers typically ask the business executives about their marketing challenges, their strategic goals, and the risks they face in the coming year. Most researchers and clients report that the clients are more likely to clearly articulate their tactical issues (such as the need for a new campaign or the need to get a new product in the pipeline into widespread distribution) than their more unpredictable competitive or strategic challenges.

To help their clients think about the unpredictable but potentially very important challenges, some market researchers talk to their clients about “Risk Analysis”. This tool involves looking for the hidden, unanticipated risks that can threaten the survival of an organization. In marketing these risks might be the failure to spot new technologies or competitive risks that could remake a market. As long as there are no new competitors or technologies, the failure to regularly conduct competitive and new product research may not be a problem. But, if a new competitor or technology does appear, the failure to conduct this research can threaten revenue and even a firm’s survival in some cases. In cases like this, the Research ROI might be very low if no competitive threats are found, but it might be very high if the threats materialize. In this case, some wise market researchers compute two versions of the Research ROI – one if the research does not turn up a threat (and does not lead to action), and one if the research DOES turn up a threat in time for the client to act to take action to address the threat.

How might this be done? One firm thought that a possible threat might come from a small competitor whose product had low market share at the moment but might steal sales in the future from the firm’s main product, which produced $5 million in sales each year. If the MR group conducted research (costing $100,000) among their customer base on the appeal of the competitor’s product and found that it was not a threat after all, then the firm estimated it might gain a great deal of confidence in deciding to take no action. So, although they estimated their confidence would increase by 80% the likelihood of action would be zero and the Research ROI would be zero as shown below. In essence, the MR group would have spent $100,000 with no monetary reward.

$$Research\,ROI = \frac{(\$5,000,000 - \$100,000)\,x\,80\%\,x\,0\%}{\$100,000} = \frac{\$0}{\$100,000} = 0\%$$

However, the executives also calculated that if the research revealed that the competitor posed a serious threat but that the firm could easily overcome that threat through a product modification (which the firm would certainly do), then the Research ROI would be high.

$$Research\,ROI = \frac{(\$5,000,000 - \$100,000)\,x\,80\%\,x\,100\%}{\$100,000} = \frac{\$4,900,000\,x\,80\%}{100,000} = 3,920\%$$

So the market researcher showed both calculations to the firm’s executives and explained that the research could result in a zero Research ROI or in a substantial Research ROI, depending on what the research revealed. This helped the firm’s executives understand that there was a risk in NOT conducting this research and that they should fund that research even if the threat did not materialize. This demonstrates that annual dialogues with executive clients (about their on-going marketing research needs for the coming year, their strategic goals and the biggest threats they face that keep them up at night) are a good way to ensure that no important research needs are overlooked. And, by adding the concept of risk analysis to the Research ROI calculation, it is possible to get clients to see the value of some research projects that they might overlook otherwise.

The next step is for the MR group head to prepare a list of the major proposed projects for the coming year along with the budget requests and Research ROI (if it can be calculated) for each one. In practice, no one list all projects. Most people list the most important projects that they envision for the coming year and try to create an estimate of the value for each of these important projects. Ideally, the Research ROI will be calculated, but if this is not possible due to lack of information, then perhaps a Negotiated Value assessment can be provided.

This listing of projects and their expected value might include the following groupings.

- Proposed Research for Coming Year
- On-Going Research (satisfaction and market tracking, for instance)
- New Tactical Research (new media evaluation, pricing, etc.)
- Strategic Research (to allow the clients to support the firm's strategic goals – such as entering new markets, etc.)
- Risk Reduction Research (to prepare the client to address competitive threats)
- Budget Request for Emerging Issues Not Known Now

Another way of grouping projects could be according to the organizational structure of the company such as by business lines or client segments. The grouping that makes most sense to executives and the way the company thinks is the best grouping choice.

Under each grouping or heading, a number of specific projects could be listed, each with its own budget request and – where possible – Research ROI analysis. Since some projects will have higher Research ROIs than others, this permits the top managers in the firm to determine which projects to prioritize and how much to spend on them. Note that, by adding the final heading for "Emerging Issues", the MR group permits itself the time and resources to address the unexpected research requests that always arise each year.

3. Support for the MR Group's Resource Requests

The annual report combined with the listing of highest priority market research projects, when communicated properly, can help market researchers retain and grow the budget and other resources they need to continue to serve their clients effectively. Market researchers compete with other groups within the organization for resources, so it is important for MR to provide objective and persuasive evidence of their value compared to the value provided by the other groups.

Conclusions

ROI analysis is an important tool for market researchers that can be used in two ways that appeal to top executives. ROI analysis can be used as a decision tool with financial measures that are understood and meaningful to CFO's, CEO's and other business executives within the firm. ROI analysis can also be a marketing or relationship-building tool because the process of agreeing on which Research ROI assumptions and measures to use requires important conversations with clients that can demonstrate the value of the MR projects and group. These discussions demonstrate MR's knowledge of the business, show that MR is a team player with goals that are aligned with the client's, and increase the likelihood the client will accept and value the research. When market researchers hold post-project conversations with the clients to determine the Actual Research ROI of the research, the clients can see that the researchers are serious about providing value, and this makes clients willing to share more of their time and insights with the MR group in an effort to continue growing the relationship.

There is overlap between using Research ROI as a decision tool and as a marketing tool because both uses of Research ROI analysis require a deep discussion and interaction with the clients. In a typical, non-ROI-focused discussion between client and researcher at the start of a research project, the emphasis is on the research objectives and what issues to study. As long as the researcher understands the objectives or purpose of the research and designs the research to accomplish that objective, then the client and researcher both are usually satisfied with the research design. However, adding the discussion about the Research ROI analysis requires interaction before, during and after the research that strengthens the relationship between the MR group and its clients, allows them to prioritize research projects, and helps win client support for future projects and annual budget requests. And, when this Research ROI information is aggregated into a measurement system with a consistent methodology for calculating and reporting the predicted and actual value of research work, the stature of the MR group as a valued and important partner to its clients and the firm increases substantially. In fact, the consistent and proper use of Research ROI analysis may be one of the most powerful tools the MR group can use to enhance its standing within the organization.

Appendix - Defining and Computing Traditional ROI

Defining Terms

The definitions of the value of the return and investment can vary according to different situations. In James Lenskold's book, **Marketing ROI,** there is a discussion of how to estimate the incremental **revenue** aspect of value. There are a range of choices available which include gross margins, total net profits adjusted for net present value, or net customer lifetime value. It is also possible to simply estimate the incremental **cost** aspect of value. For example, a decision that involves utilizing an entirely new marketing approach for a new market segment will probably have more money at risk than a decision about a minor change in packaging

The following are examples of calculating ROI with the gross measure approach and the net measure approach.
<u>Gross Value Example</u>: Assume that a business manager wants to know whether a new product will generate more new revenue than the existing product. If the market researcher used a gross value of revenue, the calculation would look only at the anticipated future gross revenue from the new product compared to that of the existing product. Let's assume that the new product is expected to provide $1 million more in revenue than the current product. Then, the ROI calculation would be based on this $1 million in gross revenue increase, minus the cost of the research (say $100,000), for an ROI of 900%. The calculation would be as follows:

$$Gross\ ROI = \frac{\$1,000,000 - \$100,000}{\$100,000} = \frac{\$900,000}{\$100,000} = 900\%$$

Net Value Example: Now we will calculate a net income ROI with the same scenario. In this example, all the additional incremental costs associated with the new product are considered. This could include the costs of new materials, new manufacturing capabilities, new marketing or advertising campaigns, etc., compared to the cost of materials, manufacturing and marketing for the existing product. Suppose that the additional or incremental costs are $800,000, which means that the net income would be only $200,000 ($1,000,000 minus $800,000) and the ROI of the $100,000 research would be only 100%.

$$Net\ ROI = \frac{\$200,000 - \$100,000}{\$100,000} = \frac{\$100,000}{\$100,000} = 100\%$$

The gross income method of calculating ROI is easier than the net income method because it requires fewer estimates. Using the gross income method avoids the need to estimate the many variables on the cost side (such as cost of materials, labor costs, marketing and advertising costs, distribution costs, etc.) with which the researcher and client may have limited or no familiarity. For researchers and their clients who are just starting to use ROI, the gross income method could feel like all they could handle. Some researchers say that it's difficult enough to estimate revenues or sales and that they have no reliable way of estimating the manufacturing or other costs. However, other researchers have pointed out as mention by Brett Hagins (2010) it is best to make the ROI calculation as conservative as possible in order to maximize the credibility of the estimate. Failure to be conservative may diminish the client's willingness to accept the researcher's ROI estimate.

Regardless of the measure of value that is used, it is important for the market researcher and the client to agree on the most appropriate measure to use given the decisions to be made. It is also important to be consistent in the measures used in calculating ROI: Select and use either gross or net gain/loss but do not switch back and forth between gross and net measures. This is important so that comparisons can be made between different market research projects. One way to determine which method to use is ask the CFO or business managers for advice on which measure is more commonly accepted in the organization. The Finance people in the firm can also be of assistance in calculating the ROI for the first few times.

Selecting Time Horizons and Net Present Value

ROI calculations also require decisions about what time horizons to use: Is it sufficient to project Final Value for just a single year, or will the value of the research investment endure over multiple periods, perhaps for many years? If it is appropriate to estimate ROI over more than one year, then the ROI analysis needs to calculate the Net Present Value (NPV) of the Final Value in today's dollars (where future dollars are worth less than today's dollars based on the estimated cost of cash). For example, assume that a research project will result in a new product that will produce revenues for five years beginning the year after the research is conducted. If we use the gross revenues that we expect to flow from the new product as our measure of Final Value, then the NPV of the Final Value might be estimated as below, where the NPV is only $6.5 million instead of $7.5 million.

Year	$ Gross Revenues in 000's (does not include cost of production)	NPV of $ Gross Revenues (using a 10% cost of capital for illustration)
1 (year research is conducted)	0	0
2	500	455
3	2,000	1,653
4	2,500	1,878
5	2,000	1,366
6	500	310
TOTAL Final Value	7,500	5,662

Further Reading

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